



STATE BOARD OF EQUALIZATION

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916/323-7715

October 20, 1988

Dear Mr.

This is in response to your September 21, 1988, letter to this Board inquiring about hospitals, business inventory, and the business inventory exemption from property taxation. According to your letter, your inquiry is the result of the Orange County Assessor's having regarded Humana Inc.'s hospitals as consumers of all inventory items for property tax assessment purposes.

In your letter, you refer to California's Sales and Use Tax Law, Board Pamphlet No. 45, Tax Tips for Hospitals, and the application of sales and use taxes pursuant thereto to hospitals' inventories. For purposes of property taxation, however, property tax statutes and rules are determinative, and applicable statutes and rules pertaining to business inventory and the business inventory exemption from property taxation are Revenue and Taxation Code sections 129 and 219 and Property Tax Rule No. 133, copies enclosed.

As you will note, after addressing the scope of the exemption and exclusions therefrom, Rule 133 continues on to discuss the availability of the exemption to service enterprises, repairers and reconditioners, and agricultural enterprises. Hospitals have for some time been regarded as service enterprises, with the result that most property held by hospitals is not regarded as business inventory held for sale or lease even though such property may be transferred to patients incidental to the rendition of professional services. As explained in the April 25, 1980, Letter to Assessors No. 80/69, Business Inventory Exemption:

"D. PROFESSIONAL AND SERVICE ENTERPRISES

- "1. Goods transfered [sic] in the rendition of a professional service are not eligible for the business inventory exemption, while goods

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transferred in the rendition of a nonprofessional service are eligible. What criteria determines whether a service is professional or nonprofessional?

"Answer: Property tax Rule 133(c) gives examples of medicine, law, architecture, or accountancy as professional services. It lists dry cleaners, beauty shop operators, and swimming pool service companies as examples of nonprofessional services. There are, of course, many services in between that are more difficult to assign to one group or the other.

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"3. Are medicines that a doctor keeps on hand business inventories?

"Answer: No, because they are typically transferred to patients incidental to the rendition of the professional service.

"4. Are medicines held by a hospital pharmacy for issuance to patients for a separate charge eligible for the business inventory exemption?

"Answer: Yes, they would constitute inventory for sale the same as a druggist's inventory.

"5. Is the food held for serving to hospital patients as part of the daily hospital service, not separately billed, eligible for the business inventory exemption?

"Answer: No. The meals are incidental to the rendition of the professional service. However, food held for sale in the hospital cafeteria is eligible.

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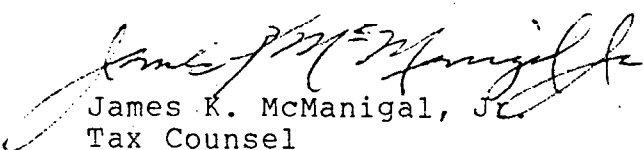
Thus, while food held for sale in hospital cafeterias and drugs held for sale at hospital pharmacies are, in our view, eligible for the exemption, properties such as patient meals, patient drugs, sutures, bandages, tape, splints, gauze, slings, dressings, needles, and syringes have been regarded as goods

October 20, 1988

transferred in the rendition of hospital services/supplies that are not eligible for the exemption.

In conclusion, the Board's Assessment Standards Division might in the future consider preparation and issuance of a Letter to Assessors concerning hospitals' inventories and the availability of the business inventory exemption thereto. If and when such occurs, I will provide you with a copy of the letter.

Very truly yours,



James K. McManigal, Jr.  
Tax Counsel

JKM/rz

Enclosures

cc: Mr. Bradley L. Jacobs  
Orange County Assessor